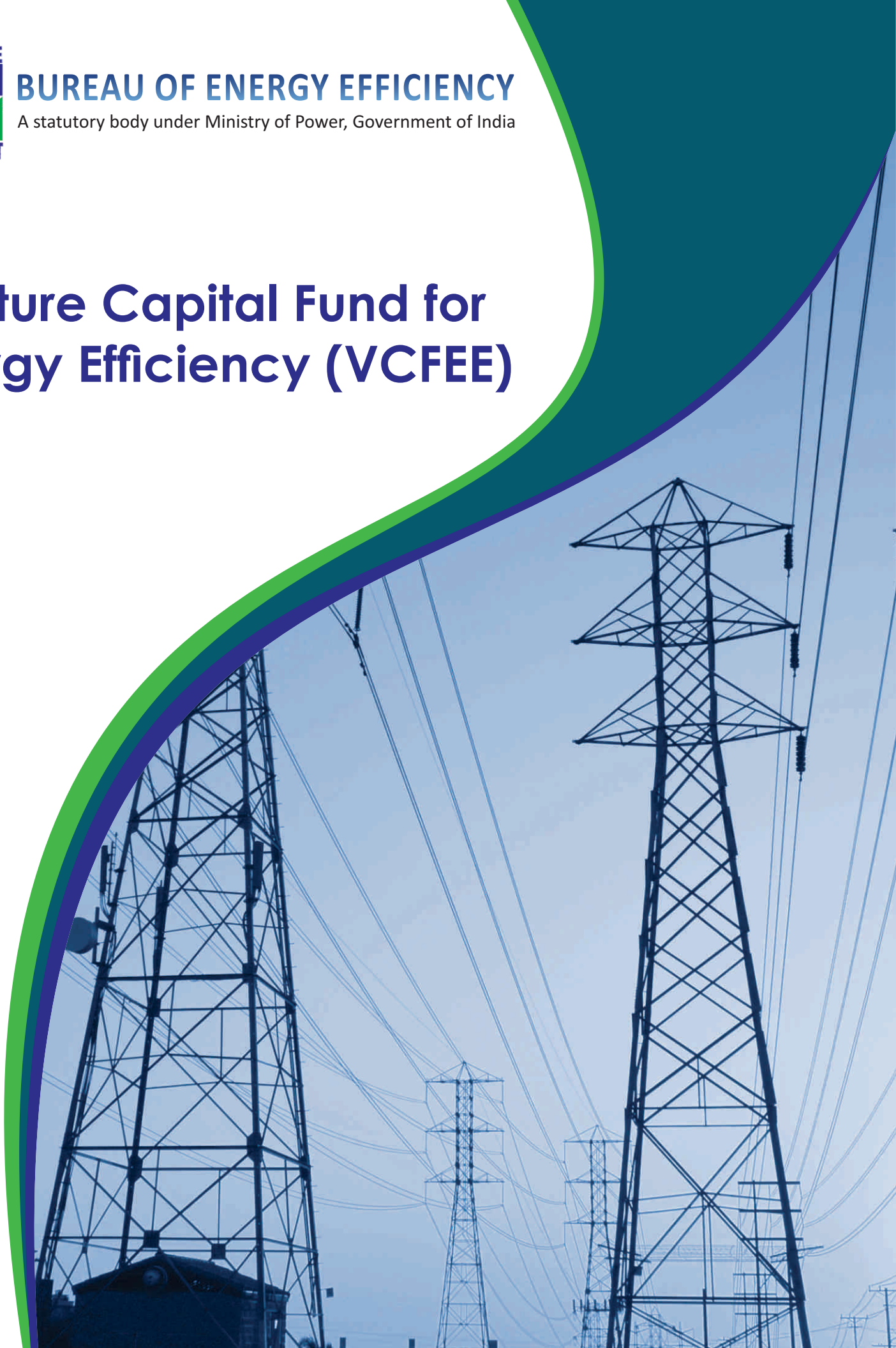




BUREAU OF ENERGY EFFICIENCY

A statutory body under Ministry of Power, Government of India

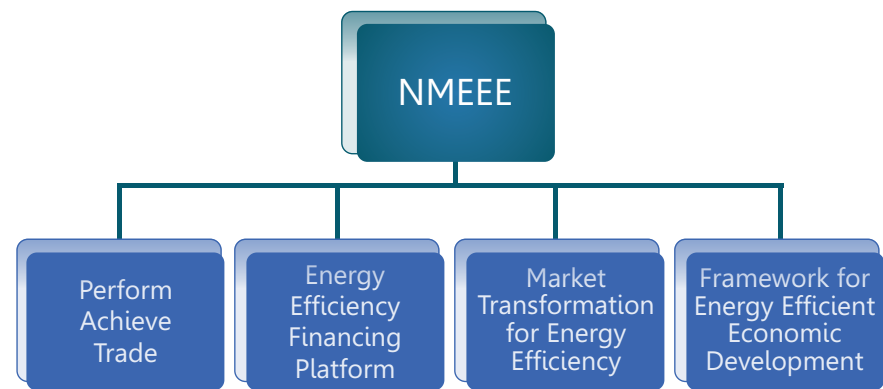
Venture Capital Fund for Energy Efficiency (VCFEE)



Background and Overview

The Bureau of Energy Efficiency (BEE) is a statutory body set up under the Ministry of Power, Government of India as part of the Energy Conservation Act 2001. BEE is focused on promoting the conservation and efficient use of energy in India by a) facilitating the formulation of a regulatory framework for EE, b) increasing awareness, and c) developing innovative financing mechanisms.

In June 2008, the Government of India released the National Action Plan on Climate Change (NAPCC) with the objective of achieving a sustainable path of development that simultaneously advances economic and environmental objectives. The NAPCC outlines eight National Missions including the National Mission for Enhanced Energy Efficiency (NMEEE) which operates under the BEE. The key components of NMEEE include:



Existing Barriers to Investment in EE Projects

Small Project Size: Due to small size of normal EE projects (INR 2-5 crores) transaction costs are high leading to lower rate of return.

Lack of Deemed Returns: Energy Performance Contracts Business Models lack private equity capital infusion as risks related to non-performance of energy efficiency technology, and reduction in energy tariffs are perceived too high.

Dilution of Equity: Due to non-availability of leveraged finance in form of debt, quasi equity, etc., energy management firms have limited options to raise finance except for equity dilution resulting in lower profitability of promoters.

What is Energy Efficiency ?

Energy efficiency (EE) has been referred to as a "hidden fuel", one that extends energy supplies, increases energy security, lowers carbon emissions and generally supports sustainable economic growth. EE is a way of managing and restraining the growth in energy consumption.

What are ESCOs ?

Energy Service Companies (ESCOs) provide a range of energy solutions including designs and implementation of energy savings projects, retrofitting, energy conservation, power generation and energy supply, and risk management. BEE empanels ESCOs every year and as on October 30, 2013, there were 137 ESCOs empanelled with BEE. The list of ESCOs is available on BEE's website.

VCFs in the EE Sector

EE remains the biggest focus in cleantech sector with USD 1.3 billion in 188 deals in 2013. The sector experienced a strong first quarter in 2014, bringing in nearly USD 377mn across 35 equity deals. Equity investment is up by 6% in the first quarter of 2014 compared with USD 354mn 2013 quarterly average. (Source: www.cleantech.com). As on March 31, 2013, there were 211 registered Venture Capital Funds with SEBI in India. However, very few are investing in the energy sector.

Venture Capital Fund for Energy Efficiency

The Venture Capital Fund for Energy Efficiency (VCFEE), established by the BEE, is one of the financial instruments under the Framework for Energy Efficient Economic Development of NMEEE. The VCFEE provides risk capital support to EE investments in new technologies, goods and services. The Government of India has approved about INR 210 crores for the VCFEE.

The fund helps to create the volume in EE deal flow by the fund manager of VCFEE through advertising and soliciting opportunities in energy efficiency area. Energy Service Companies (ESCOs) and companies that plan to undertake EE projects in the energy performance contracting mode are the key potential beneficiaries of the VCFEE.

The fund will be registered with the Securities and Exchange Board of India under its Alternative Investment Funds Regulation, 2012. BEE will select a public financial institution as a "Fund Manager" for management of the funds under VCFEE and the "Fund Manager" will be primarily responsible for making investment on behalf of VCFEE. The manager will also present the quarterly progress reports to the Board of Trustees. VCFEE will provide equity capital for energy efficiency projects in Government buildings and Municipalities in the first phase.

Key Features of VCFEE

- The fund will invest in the form of equity.
- A single investment by the fund shall not exceed INR 2 crores.
- The fund shall provide last mile equity support to specific energy efficiency projects, limited to a maximum of 15% of total equity required, through Special Purpose Vehicles (SPV) or INR 2 crores, whichever is less.
- The total life of the fund will be 10 years from the date of commencement.

Important Features of SPV

- A SPV is a company which has to follow the rules of formation of a company laid down in the Companies Act, 1956 but its scope of operation is limited and focused.
- The assets or activities are distanced from the parent company, hence, the performance of the new entity will not be affected by the ups and downs of the originating entity.
- SPV allows securitisation of assets without disturbing the managerial relationship.
- In infrastructure sector various SPVs were formed like Infrastructure Development Finance Company (IDFC), Power Finance Corporation (PFC), Indian Rail Finance Corporation (IRFC), etc. to raise funds for development of infrastructure sector projects.

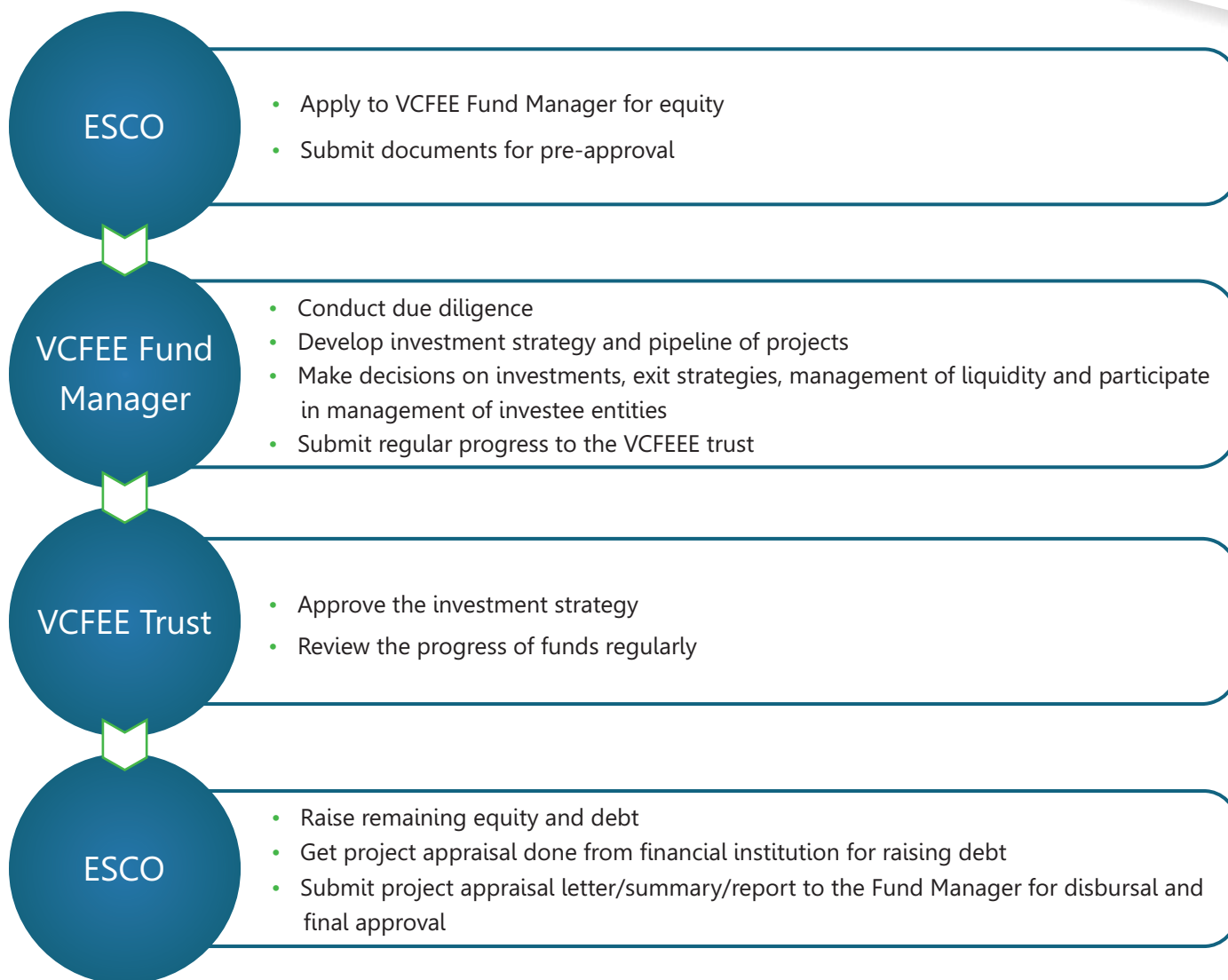
What is the Eligibility Criteria ?

- Seek to achieve demonstrable energy savings and mitigate in emissions of greenhouse gases and project sponsors/participants must offer a viable method to monitor and verify the same.
- Be a new project, not takeover of an existing project.
- Use viable technologies and to be developed after energy audit/ feasibility studies.

What are the Primary Exit Routes ?

- Repurchase by the invested entities/promoters
- Strategic sale-mergers & acquisitions
- Initial Public Offering (India, foreign capital markets)

Institutional Structure



Benefits to Investor

- The projects under VCFEE will be recognized by the Government of India.
- As compared to high return on investment required by typical Venture Capital Funding, VCFEE will provide seed capital at nominal Return on Investment (RoI).
- Advantage of participating in capacity building workshops organized by BEE/VCFEE Trust which will help in increasing its outreach and awareness in the EE sector.
- Information regarding investment in projects under VCFEE shall be kept on BEE's website.



Contact Information

Bureau of Energy Efficiency (Ministry of Power)
4th Floor, Sewa Bhawan, Sector 1, R. K. Puram, New Delhi - 110066
Phone: +91 11 26179699, Fax : +91 11 26178352
Email: vkanwal@beenet.in/vcfec@beenet.in, Web: www.beeindia.in